

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF BIG RIVERS ELECTRIC	)	
CORPORATION FOR A CERTIFICATE OF PUBLIC	)	
CONVENIENCE AND NECESSITY TO CONSTRUCT	)	
TRANSMISSION FACILITIES IN MEADE COUNTY	)	
IN KENTUCKY TO INTERCONNECT ITS ELECTRIC	)	
UTILITY SYSTEM WITH THE ELECTRIC UTILITY	)	
SYSTEM OF EAST KENTUCKY POWER COOPERATIVE	)	
and	)	CASE NO.
	)	94-078
	)	
THE APPLICATION OF EAST KENTUCKY POWER	)	
COOPERATIVE, INC. FOR A CERTIFICATE OF	)	
PUBLIC CONVENIENCE AND NECESSITY TO	)	
CONSTRUCT CERTAIN ELECTRIC TRANSMISSION	)	
FACILITIES IN HARDIN COUNTY	)	

O R D E R

On February 23, 1994, Big Rivers Electric Corporation ("Big Rivers") and East Kentucky Power Cooperative, Inc. ("East Kentucky") (jointly referred to as "Applicants") filed individual applications, which were subsequently consolidated, for Certificates of Public Convenience and Necessity to construct a total of approximately 32.4 miles of 161 KV transmission line and one 161 KV substation to interconnect their electric systems. Big Rivers proposes to construct 13.5 miles of 161 KV transmission line and modify an existing 161 KV substation at an estimated cost of \$2,760,000. East Kentucky proposes to construct 18.9 miles of 161 KV transmission line and a new 161 KV substation at an estimated cost of \$4,054,500.

Applicants have an agreement to share backup power when Big Rivers' Wilson Unit or East Kentucky's Spurlock Unit No. 2 is

unavailable due to planned or forced outages. The backup power agreement authorizes each utility to take up to a maximum of 200 MW annually and obligates the recipient to return the same quantity of power that it receives. Since no direct transmission interconnection exists between the Applicants, any power transfers must be wheeled through another utility. In the past these power transfers were wheeled through the Louisville Gas and Electric Company ("LG&E").

Historically, the Applicants' average annual backup power transfers have been approximately 40,000 MWH. Utilizing projected annual backup power transfers ranging from 119,364 MWH in 1996 to 238,080 MWH in 2015, economic analyses were prepared to justify constructing a transmission interconnection.

The Applicants' present worth analyses compared the total costs under two alternative scenarios. The first scenario assumes Big Rivers and East Kentucky construct their own facilities, thus eliminating the need to pay wheeling charges. The second scenario assumes Big Rivers and East Kentucky continue to transfer power through LG&E. The results of the analyses show approximately \$929,000 and \$2,100,000 in present worth savings for East Kentucky and Big Rivers, respectively, if they construct the proposed transmission facilities.

The Commission is concerned that some of the assumptions used in the analysis are not sufficiently supported and may lead to unreliable results. These assumptions include an increase in

LG&E's wheeling rate from \$1.75/MWH to \$3.13/MWH, and a significant increase in the Applicants' annual MWH power transfers.

The Applicants' analyses used an LG&E wheeling rate of \$3.13/MWH, although LG&E has been recently transferring backup power between the Applicants at a rate of \$1.75/MWH. East Kentucky acknowledged that LG&E has been wheeling at a rate of \$1.75/MWH but maintained that a rate of \$3.13 or higher could be charged at any time.<sup>1</sup> However, no evidence was presented to demonstrate that LG&E intends to charge the higher wheeling rate.

Further, East Kentucky has projected enormous increases in the level of back-up power transfers with Big Rivers; increases in the range of 300 to 600 percent. When the basis for these projected increases was questioned, East Kentucky indicated that the need to meet future load growth necessitates greater reliance on back-up power when Spurlock Unit No. 2 is out of service. However, East Kentucky has treated its interruptible load as if it were firm load by projecting back-up power transfers in lieu of interruptions. Absent more credible support for the projected increases in the level of back-up power transfers, the Commission cannot rely upon these figures.

The Commission has considered this application based upon LG&E's recent wheeling charges and the historic level of annual MWH power transfers. Until there is persuasive evidence to demonstrate increases in the wheeling rate and the level of power transfers,

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<sup>1</sup> Transcript of Evidence, September 29, 1994, Page 38.

the present worth analyses do not justify the proposed construction. Furthermore, Big Rivers and East Kentucky are obligated to take all steps necessary to ensure that the wheeling rate stays at the lowest reasonable level.

East Kentucky has indicated that it will issue a request for proposals for approximately 200 MW of peaking capacity for the late 1990's and 200 MW of intermediate or baseload capacity for the early 2000's. The Commission recognizes that a firm power sale from Big Rivers to East Kentucky would significantly change the assumptions underlying the economic analyses and could favor the construction of a transmission interconnection. In the event such a power sale materializes, the economics of a transmission interconnection will need to be revisited.

The Commission, having considered the evidence of record and being advised, is of the opinion and finds that:

1. The wheeling rate and projected levels of backup power transfers utilized in the Applicants' present worth analyses have not been justified. Consequently, the analyses' conclusions cannot be accepted as reliable.

2. Continuing to wheel backup power through LG&E is a less expensive and more cost effective alternative to the construction of the proposed transmission interconnection.

3. The Applicants' requests for Certificates of Public Convenience and Necessity to construct a proposed transmission interconnection should be denied without prejudice.

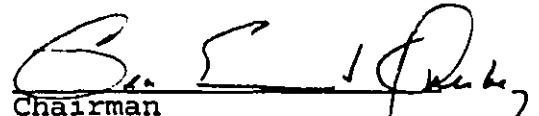
4. The Applicants should be commended for their joint efforts to transfer power between their systems and they should continue their efforts to negotiate additional power sales.

5. In the event that circumstances change and the Applicants can demonstrate the economic justification for a transmission interconnection, a new application should be filed.

IT IS THEREFORE ORDERED that the Applicants' requests for Certificates of Public Convenience and Necessity to construct a transmission interconnection be and they hereby are denied without prejudice.

Done at Frankfort, Kentucky, this 26th day of January, 1995.

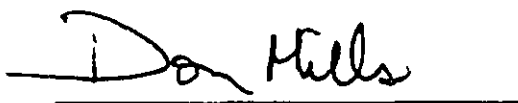
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